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S E C R E T SECTION 01 OF 02 TEGUCIGALPA 001430

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E.O. 12958: DECL: 8/9/2031
TAGS: [EPET](#) [HO](#) [PGOV](#) [PINR](#)
SUBJECT: (C) HONDURAN VICE PRESIDENT SEEKS TO SUPPORT U.S.
STRATEGY ON FUEL BID

REF: TEGUCIGALPA 01393

Classified By: AMB Charles Ford for reasons 1.4 (b) and (d)

11. (S) Summary: Honduran Vice President Elvin Santos reached out to Post August 8 to better understand U.S. strategy and concerns on the upcoming national fuel bid. In the next few days Santos stated he will be trading his unwilling public support of the bid process for a strict evaluation of bid responses and a more defined path towards market liberalization. While he fears potential Venezuelan influence through their state fuel company PDVSA, he is more concerned about how any deal will impact relations with Honduras, largest trading partner) the U.S. End Summary.

12. (S) Honduran Vice President Elvin Santos met with EconOff August 8 to discuss an Intellectual Property Rights plan, but the conversation quickly turned to the upcoming national bid for all of Honduras, fuel requirements. Santos has effectively remained on the sidelines on fuel until the last few months, when a series of secret meetings between PDVSA and Honduran government officials caused him to comment publically that &Venezuela will not solve our problems.8 Since that time he has been viewed as against the national bid. Santos confided that in the last few days the pressure from President Jose Manuel &Mel8 Zelaya to publicly announce he is in favor of the bid has grown more intense.

13. (S) Santos reiterated that, while he believes the national bid will not deliver the anticipated savings, the process needs to be followed and a bid winner selected in order to avoid &social pressure.8 In the next few days he plans on meeting with President Zelaya and giving his support to the bid process, but in return realizes that he may be able to dictate some terms and conditions. (Comment: EconOff probed Santos on his knowledge of the situation, and found him to be uninformed on the latest machinations involving the bid documents and possible purchase of Honduran fuel company DIPPSA. EconOff described the risks associated with Venezuelan fuel, including PetroCaribe financing being used for purposes other than lowering the price of fuel, and potential regional repercussions of distributing fuel to FMLN and FSLN municipalities in Nicaragua and El Salvador. Santos also asked about DIPPSA, and EconOff described concerns with

the Miami-based company Caribbean PetroChemical and potential connections between Argentine businessman Adrien Reca and PDVSA. Santos took all on board with interest. End Comment).

14. (S) At this point Santos specifically asked EconOff what Post strategy was on the national bid so he could help promote the position in his coming meetings with President Zelaya. EconOff gave Santos a copy Post,s comments on the bid (formally submitted August 7), and presented a detailed overview of Post's stated positions on transparency and openness in the process. EconOff explained Post,s call for establishing clear and decisive criteria to evaluate each bid in the Terms of Reference document. Santos was clearly interested in this point, and began thinking through additional possibilities such as creating review periods every few months for the eventual bid winner to determine if they were still meeting savings targets. If these targets were not met, he stated, the GOH should be able to terminate the contract.

15. (S) EconOff also mentioned Post,s position on setting out a path to a free market in fuel. While most representatives in the current administration (including President Zelaya and key advisor Enrique Flores Lanza) have professed their desire to move eventually to a freer, more competitive market in fuel, they have not elaborated the concrete steps they intend to take to get there from the proposed single-source national bid. As stated in comments on the Terms of Reference document, Post has recommended a concurrent effort to analyze and revise the current price setting formula with an eye towards making it more efficient and eventually replacing it with a more competitive approach. Santos agreed the steps towards a liberalized market needed to be fleshed out, and

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planned on calling on business leader Mario Canahauti, President of Honduran private sector umbrella organization COHEP, to discuss how to best proceed. (Comment: Santos recognized that by revising the formula he would be taking on the powerful fuel retailers and transport unions that now enjoy significant guaranteed margins. With the support of COHEP, he believed, a more competitive solution could be found &for the benefit of the Honduran people.8 End Comment).

16. (S) Comment: Santos remains a staunch supporter of the U.S., and stated several times that the national bid, particularly if it involves PDVSA, needs to be analyzed for impact on U.S.-Honduran relations. Therefore, in exchange for his endorsement of the bid, he is seeking to protect that relationship by supporting elements of Post,s strategy. By the end of the meeting, he seemed to lock onto a plan that would create quantifiable and explicit evaluation criteria and establish contract stipulations giving the GOH a way out if savings targets are not met, while starting a national dialogue on revising the current fuel formula. The national bid still faces many unanswered questions, in particular regarding the use of private storage facilities and payment terms, and per several sources is being set up to fail. Whether Santos, engagement at this point can affect the outcome remains to be seen. End Comment.
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